

Internal Revenue Service

Department of the Treasury

District  
Director

[REDACTED]  
Date: OCT 14 1986

Person to Contact:

Contact Telephone Number:

Refer Reply to:

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption under section 501(c)(7) of the Internal Revenue Code.

The evidence presented discloses that you were incorporated on [REDACTED] under the laws of the State of [REDACTED].

The purposes for which your corporation was formed are as follows:  
"Management, control and administration of recreational uses of timberlands and all activities incident thereto including, but not limited to, the purchase, lease, mortgage and sale of real and personal property."

Your by-laws state further that your purposes of managing and administering recreational uses of timberlands shall be conducted in such timberlands located in northern [REDACTED] within an area identified as [REDACTED], such area including lands as designated by your Board of Directors. Your by-laws further provide that your Board of Directors shall consist of one representative from owners of land within the Multiple Use Management Area, such owners including [REDACTED]  
[REDACTED]  
[REDACTED].

Your organization provides information, guidance and [REDACTED] maintained campsites to accommodate public visitors on private woodland. Visitor fees are charged and collected to help offset costs. You welcome public use of the area. Your primary source of financial support is such user fees charged for public recreational use of the campsites, roads and land area. You also derive income from various owners of land within your organization's boundaries, as well as income from investments, and the retail sale of maps, decalcs and brochures. During the years [REDACTED] through [REDACTED], your organization derived between [REDACTED] and [REDACTED] of its total gross receipts for each year from the nonmember use of your organization's facilities.

In your application for Recognition Of Exemption, Form 1024, you have stated that you have filed Federal income tax returns, Form 1120, for each of the years [REDACTED] and [REDACTED].

(2)

In your Form 1024, you have also stated that your organization provides the following benefits to private landowners:

- (1) Traffic control on private gravel logging roads.
- (2) Forest fire protection by providing fire-safe camping areas.
- (3) Litter control.
- (4) Manage recreational use to help prevent overuse of natural areas, control vandalism of camps and equipment, assist State agencies in managing fish and wildlife resources.
- (5) Keep records and plans developed to assist in future management objectives.
- (6) Payment of user cost by such users.

You have also stated that you are the outgrowth or continuation of a predecessor organization. The partnership between [REDACTED] and [REDACTED] which was established in [REDACTED] was subsequently terminated. All assets of this partnership were transferred to your corporation when it was established in [REDACTED].

Section 501(c)(7) of the Code provides exemption to clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Public Law 94-568 amended IRC 501 to reflect a twofold change under IRC 501(c)(7). First, it makes it clear that a social club may receive some investment income without losing its exempt status. Second, it permits a higher level of income from nonmember use of club facilities than was previously allowed.

In addition, Public Law 94-568 defines gross receipts as those receipts from normal and usual activities of a club including charges, admissions, membership fees, dues, assessments, investment income, and normal recurring capital gains on investments, but excluding initiation fees and capital contributions. Public Law 94-568 also states that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their membership without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of the social club's facilities or services by the general public. Thus a social club may receive investment income up to the full 35 percent amount of gross receipts. If a club receives unusual amounts of income, such as from the sale of its clubhouse or similar facility, that income is not to be included in the 35 percent formula; that is, unusual income is not to be included in the gross receipts of the club.

(3)

Section 1.501(c)(7)-1 of the Income Tax Regulations states that the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, or other non-profitable purposes, and is not exempt under section 501(a).

Revenue Ruling 69-219, 1969-1 C.B. 153 held that a social club that regularly holds its golf course open to the general public, charging established green fees that are used for maintenance and improvement of club facilities, is not exempt under IRC 501(c)(7). Exemption was denied because:

(1) the club was engaged in business with the general public by regularly holding its golf course open to the general public for use upon payment of established green fees, and

(2) the income from this source was inuring to the benefit of the members because it was used for maintenance and improvement of club facilities.

The information available demonstrates that, like the organization described in Revenue Ruling 69-219,

(1) you are engaged in business with the general public by regularly providing information, guidance and campsites to accommodate public visitors on private woodland owned by members of your Board of Directors, and

(2) the income from this activity inures to the benefit of the members of your Board of Directors since it is used to provide benefits such as traffic control, forest fire protection and litter control to the private landowners.

In addition, nonmember income has constituted more than the 35 percent limitation on gross receipts as stated in Public Law 94-568 for the years [REDACTED], and [REDACTED].

Although you are incorporated as a non-profit corporation in the State of [REDACTED], you have provided no evidence showing that your purposes or activities are changed from those of your predecessor organization, a partnership which by definition is an association of two or more partners in a business enterprise.

(4)

Accordingly, we conclude that you do not meet the requirements for exempt status under section 501(c)(7) of the code and propose to deny your request for exemption under that section.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

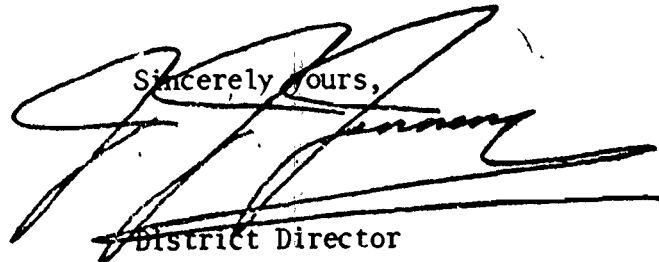
You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may protest in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completions.

If we do not hear from you within that time, this determination will become final.

Sincerely yours,



District Director

Enclosure: Publication 892